

smartmoney



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ISA returns of the year for the over-50s

Have you taken advantage of topping up your tax-efficient savings?

Bespoke investment solutions

Collective investment schemes, selecting a broad spread of instruments

10 ways to save tax

Act fast before the end of the tax year

Pension rules post A-Day

How the landscape for retirement planning has changed

Inheritance Tax Planning

Your questions answered



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Inside this issue

Welcome to the latest edition of our personal finance and wealth management magazine. Inside you'll find a mix of articles designed to help you make more of your money, with a particular focus on certain areas to consider as the year end approaches.

If you are aged 50 or over, from 6 October your Individual Savings Account (ISA) allowance increased by a further £3,000 to £10,200; £1,500 of this increase can be saved in a cash ISA. Everyone else will be entitled to this higher contribution allowance from 6 April next year. On page 7 we look at how you can benefit from the increased allowance, which was announced during the Chancellor's last Budget.

We provide solutions to the diverse needs not just of our wealthy clients but also of those who aspire to become wealthy, enabling each individual to structure their finances as efficiently as possible. If you are an income-seeking saver in search of good returns from your savings in this low interest rate environment, on page 11 we explain how we can provide you with the professional advice you need to enable you to consider the options available.

You don't have to be seriously wealthy for your estate to be subject to Inheritance Tax (IHT) after you die. Currently IHT is levied on everything you leave over £325,000 (2009/10). This is a complex subject and on page 10 we answer some of the typical questions we are asked by our clients, potentially saving you thousands of pounds of lost tax.

Also inside this edition we give you a checklist of 10 ways to save tax and we look at how the landscape for retirement planning has changed. A full list of the articles featured appears on page 3.

To discuss your financial planning requirements or to obtain further information, please contact us.

RETIREMENT



State pension age changes

Dates for your diary

The state pension age is the earliest age at which you are able to claim your state pension benefits. For many years this has been 65 for men and 60 for women, but things are soon to change. And the age at which you can claim that state pension will be determined by when you were born. However, this could all change again under a new government following the forthcoming general election.

At present, the state pension age is 65 for all men born before 6 April 1959 and 60 for every woman born on or before 5 April 1950. But these benchmarks are set to rise between 2010 and 2046.

From next year, the state pension age for women born on or after 6 April 1950 will start to increase gradually to 65 over the coming

decade and then from 2020 both sexes will have a retirement age of 65.

MOVING RETIREMENT AGE ABOVE 65

Between 2024 and 2046 the state pension age will rise for both men and women. This increase, again, will be gradual, occurring over two years every decade. The change for both men and women will mean the following:

- The state pension age will increase from 65 to 66 between April 2024 and April 2026
- And from 66 to 67 between April 2034 and April 2036
- And then from 67 to 68 between April 2044 and April 2046

DIVORCE

Dividing pension rights in a divorce

Complex calculations mean there are a number of factors to consider

Divorce can create financial difficulties. The pensions of both parties in a divorce may be considered when the court decides what money goes where. If one spouse never worked, while the other built up a large pension fund, this will have to be taken into account and the calculations can be complex.

There are a number of factors to consider when handling the division of pension rights in a divorce. From April 2009, the restrictions imposed on people who receive part of their ex-partner's pension benefits were scrapped.

The rule change makes it more attractive now to use pension sharing as part of a divorce settlement. Courts can also earmark one partner's pension. This means that when the pension finally pays out, in 20 years or so, part of the pension is reserved for the other partner. The problem with this system is that, having divorced your husband or wife, you then have to wait for them to retire before you receive any money. If they choose to retire late, you have to wait longer. And if they die before retirement you could be left with nothing. However, depending upon the scheme type, the benefits could be worth much more.

want to make more of your money?

For more information please tick the appropriate box or boxes below, include your personal details and return this information directly to us.

- Arranging a financial wealth check
- Building an investment portfolio
- Generating a bigger retirement income
- Off-shore investments
- Tax-efficient investments
- Family protection in the event of premature death
- Protection against the loss of regular income
- Providing a capital sum if I'm diagnosed with serious illness
- Provision for long-term health care
- School fees/further education funding
- Protecting my estate from inheritance tax
- Capital gains tax planning

- Corporation tax/income tax planning
- Director and employee benefit schemes
- Other (please specify)

Name _____

Address _____

Postcode _____

Tel. (home) _____

Tel. (work) _____

Mobile _____

Email _____



You voluntarily choose to provide your personal details. Personal information will be treated as confidential by us and held in accordance with the Data Protection Act. You agree that such personal information may be used to provide you with details and products or services in writing or by telephone or email.



Achieving a wealthier retirement

Have you considered your options?

Buying an annuity is typically a one-off purchase, so it's essential to obtain professional advice to ensure that you can achieve a wealthier retirement.

YOUR OPTIONS AT AGE 55 (50 UNTIL 2010) AND 75

TAX-FREE CASH

At retirement you can normally take up to 25 per cent of your fund as a tax-free cash sum (also known as pension commencement lump sum) with the remainder being used to provide a taxable income.

ANNUITY (SECURED PENSION)

With an annuity, you use your pension fund to buy a taxable income. This is a secure, reliable income paid to you for the rest of your life.

INCOME DRAWDOWN (UNSECURED PENSION)

This is where your fund remains invested within a pension, but you take a taxable income from it within limits defined by the government. This gives you flexibility, as you can vary your income to meet your requirements. But as your fund remains invested your investments could still go down in value, or you could deplete your fund by drawing

too much income. Income drawdown is not available with stakeholder pensions and therefore you may have to transfer to an alternative pension.

YOUR OPTIONS AFTER AGE 75

ALTERNATIVELY SECURED PENSION (ASP)

If you have not taken an annuity by age 75, your fund will convert into an ASP. This is similar to income drawdown, although if you have not taken any tax-free cash from your plan you will not be able to do so, and the income you can take is more restricted to reduce the risk of running down your retirement fund early. An ASP is not available with stakeholder pensions and therefore you may have to transfer to an alternative pension.

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We view pensions as an investment vehicle with unique features and tax treatment. By taking this approach, we align our retirement solutions with our client's personal circumstances and objectives, ensuring their retirement planning fits cohesively into any financial strategy. If you would like to discuss your retirement objectives, please contact us.

Content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. They should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

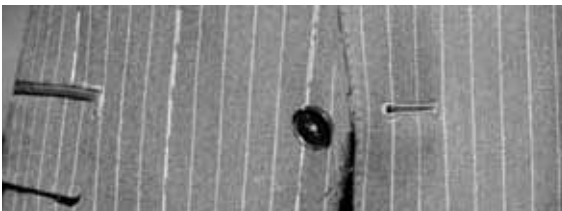
INVESTMENT



BESPOKE INVESTMENT SOLUTIONS

Selecting a broad spread of instruments

There is a whole range of opportunities open to an investor wishing to generate extra income or build up a capital sum for the future. If appropriate to your particular requirements, one option to consider is collective investment schemes.



In the UK there are three principal types of mainstream collective or pooled investment schemes: unit trusts, investment trusts and Open-Ended Investment Companies (OEICs).

All three will take the pooled monies of a large number of investors and put them in the hands of a professional fund manager. Their objective is to select a broad spread of instruments in which to invest, depending on an investment remit. The main asset classes available to invest in are shares, bonds, gilts, property and other specialist areas such as hedge funds or guaranteed funds.

There are key differences between the three types of scheme structure.

UNIT TRUSTS

Unit trusts are collective investments that allow you to participate in a wider range of investments than can normally be achieved on your own with smaller sums of money. Pooling your money with others also reduces the risk.

The unit trust fund is divided into units, each of which represents a tiny share of the overall portfolio. Each day the portfolio is valued, which determines the value of the units. When the portfolio value rises, the price of the units increases. When the portfolio value goes down, the price of the units falls.

The unit trust is run by a fund manager, or a team of managers, who will make the investment decisions. They invest in stock markets all around the world and for the more adventurous investor, there are funds investing in individual emerging markets, such as South Korea, or in the so-called BRIC economies (Brazil, Russia, India and China).

Alternatively, some funds invest in metals and natural resources, and many put their money into bonds. Some offer a blend of equities, bonds, property and cash and are known as balanced funds. If you wish to marry your profits with your principles, you can also invest in an ethical fund. Some funds do not invest directly in shares but in a number of other funds. These are known as multi-manager funds.

Most fund managers use their own judgment to assemble a portfolio of shares for their funds, which are known as actively managed funds. However, a sizeable minority of funds simply aim to replicate a particular index, such as the FTSE All-Share index. These are known as passive funds, or trackers.

INVESTMENT TRUSTS

Investment trusts are based upon fixed amounts of capital divided into shares. This makes them closed ended, unlike the open-ended structure of unit trusts. They can be one of the easiest and most cost-effective ways to invest in the stock

market. Once the capital has been divided into shares, you can purchase the shares. When an investment trust sells shares, it is not taxed on any capital gains it has made. By contrast, private investors are subject to capital gains tax when they sell shares in their own portfolio.

Another major difference between investment trusts and unit trusts is that investment trusts can borrow money for their investments, known as gearing up, whereas unit trusts cannot. Gearing up can work either to the advantage or disadvantage of investment trusts, depending on whether the stock market is rising or falling.

Investment trusts can also invest in unquoted or unlisted companies, which may not be trading on the stock exchange either because they don't wish to or because they don't meet the given criteria. This facility, combined with the ability to borrow money for investments, can, however, make investment trusts more volatile.

“ In the UK there are three principal types of mainstream collective or pooled investment schemes: unit trusts, investment trusts and Open-Ended Investment Companies (OEICs). ”

The net asset value (NAV) is the total market value of all the trust's investments and assets minus any liabilities. The NAV per share is the net asset value of the trust divided by the number of shares in issue. The share price of an investment trust depends on the supply and demand for its shares in the stock market. This can result in the price being at a 'discount' or a 'premium' to the NAV per share.

A trust's share price is said to be at a discount when the market price of the trust's shares is less than the NAV per share. This means that investors are able to buy shares in the investment trust at less than the underlying stock market value of the trust's assets.

A trust's shares are said to be at a premium when the market price is more than the NAV per share. This means that investors are buying shares in the trust at a higher price than the underlying stock market value of the trust's assets. The movement in discounts and premiums is a useful way to indicate the market's perception of the potential performance of a particular trust or the market where it invests. Discounts and premiums are also one of the key differences between investment trusts and unit trusts or OEICs.

OPEN-ENDED INVESTMENT COMPANIES

Open-ended investment companies (OEICs) are stock market-quoted collective investment schemes. Like unit trusts and investment trusts, they invest in a variety of assets to generate a return for investors.

An OEIC (pronounced 'oik') is a pooled collective investment vehicle in company form. It may have an umbrella fund structure allowing for many sub-funds with different investment objectives. This means you can invest for income and growth in the same umbrella fund, moving your money from one sub fund to another as your investment priorities or circumstances change. OEICs may also offer different share classes for the same fund.

By being 'open ended', OEICs can expand and contract in response to demand, just like unit trusts. The share price of an OEIC is the value of all the underlying investments divided by the number of shares in issue. As an open-ended fund, the fund gets bigger and more shares are created as more people invest. The fund shrinks and shares are cancelled as people withdraw their money.

You may invest into an OEIC through a stocks and shares Individual Savings Account (ISA). Each time you invest in an OEIC fund, you will be allocated a number of shares. You can choose either income or accumulation shares, depending on whether you are looking for your investment to grow or to provide you with income, providing they are available for the fund you want to invest in.

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Whatever the nature of the investments you are considering, the starting point should be to obtain professional advice. We can assess your specific needs and help you build a tailored investment plan. To discuss the options available to you, please contact us for further information.



Purchased Life Annuity

Securing an income for the rest of your lifetime

If you are looking for a secure income that will not fall in value or eventually run out, an option to consider is a Purchased Life Annuity (PLA). A PLA pays you income in the same way as a pension annuity. However, it is bought using your own money rather than with money in a pension. The insurance company you choose to buy the PLA from will pay you a secure income for the rest of your lifetime in exchange for your capital.

Your income payments are split into 'return of capital' and 'interest' and only the interest section is subject to tax. The interest section is usually the smallest part of your income, meaning that you get the majority tax-free. The older you are when you purchase the PLA, the smaller the income section.

The amount you receive is based on your age, life expectancy and the options you choose, such as joint life, increasing income and payment frequency. Usually the same sum of money will buy a larger income the older you are. It is also possible to get enhanced PLAs if you smoke or suffer any medical conditions.

“The amount you receive is based on your age, life expectancy and the options you choose, such as joint life, increasing income and payment frequency.”

If you would like to discuss how we could help you generate or enhance your regular income, please contact us for further information.

Boosting your retirement income

Shopping around to get the best deal

When you decide to take benefits from your pension savings, you are not obliged to purchase an annuity and take your retirement income from the company that you hold your pension fund with.

An 'open market option' enables you to transfer your accumulated pension fund to another insurance company, which allows you to shop around to get the best deal. Utilising the 'open market option' could mean that you are able to find a better annuity rate and, therefore, secure more income during your retirement.

Annuity rates can vary considerably between providers. Even within one provider, the rates can differ according to the annuity option chosen. You have to remember that purchasing an annuity is a one-off decision, so it should be made very carefully and only after taking professional advice. Once you have purchased an annuity, you cannot then move to another provider.

In addition, your current pension provider may not be able to offer you the type of retirement income or the retirement product you require. For example, not all insurance companies have income drawdown products or may impose fund size restrictions above your fund value.

The 'open market option' is not available for every plan or scheme. You may be restricted by the size of your pension fund, as some companies will only allow you to purchase an annuity if your fund is above a certain size.

You don't have to purchase an annuity at age 75 in the current market. Another option, for those willing to look at investment risk, is to purchase an 'alternatively secured pension' (ASP). This is an alternative to an annuity purchase and is only available to those aged 75 and over.

- The maximum income you can withdraw is about 90 per cent of a level single-life lifetime

- annuity and the minimum is 55 per cent
- These limits must be reviewed every year
- Regardless of your actual age, the maximum income will be based on age 75

In the event of your death while in an ASP, any unused funds are subsequently used for the benefit of a spouse, civil partner or financial dependant. There will usually be no immediate charge to Inheritance Tax (IHT). However, if on the subsequent death of that person there are still unused funds remaining, those unused funds will be taxed for IHT as if they had formed part of the original pensioner's estate on death.

Effective retirement planning requires an expert knowledge of the detail of pension legislation and an ability clearly to understand a client's individual long-term objectives and expectations. We offer both. For more information about the services we offer, please contact us.

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ISA returns of the year for the over-50s

Have you taken advantage of topping up your tax-free savings?

If you are aged 50 or over, from 6 October your Individual Savings Account (ISA) allowance increased by a further £3,000 to £10,200; £1,500 of this increase can be saved in a cash ISA.

Everyone else will be entitled to this higher contribution allowance from 6 April next year. The increase was announced during the Chancellor's last Budget and is only the second time limits have been raised since ISAs were launched in 1999.

The earlier you invest in the tax year, the better you can make sure that you are using your ISA allowance to its full advantage and the longer your money is outside the reach of the taxman.

ISAs are virtually tax-free savings, which means that you do not have to declare any income from them, and you can use an ISA to save cash or invest in stocks and shares.

ISA OPTIONS ISAS CAN BE USED TO:

- save cash and get tax-free interest
- invest in shares or funds – any capital growth will be tax-free and there is no further tax to pay on any dividends you receive

TRANSFERRING MONEY FROM CASH ISAS TO STOCKS AND SHARES ISAS

If you have money saved from a previous tax year, you can transfer some or all of the money from a cash ISA to a stocks and shares ISA without this affecting your annual ISA

investment allowance. However, once you have transferred your cash ISA to a stocks and shares ISA it is not possible to transfer it back into cash.

TAX FACTS INTEREST AND DIVIDENDS FROM SAVINGS:

- if you pay tax at the basic rate, outside an ISA you would usually pay 20 per cent tax (2009/10) on your savings interest
- if you pay tax at the higher rate, outside an ISA you would usually pay tax at 40 per cent on your savings interest
- if you pay the 'saving rate' of tax for savings, outside an ISA you would pay tax at 10 per cent on your savings interest
- if you're a basic rate taxpayer inside or outside an ISA you pay tax at 10 per cent on dividend income. This is taken as a 'tax credit' before you receive the dividend and cannot be refunded for ISA investments
- if you're a higher rate taxpayer you would normally pay tax on dividend income at 32.5 per cent. In an ISA you won't get back the 10 per cent dividend tax credit element of this, but you will save by not having to pay any additional tax

CAPITAL GAINS TAX (CGT) SAVINGS

If you make gains of more than £10,100 (2009/10) from the sale of shares and certain other assets in the current tax year, you would normally have to pay CGT. However, you do not have to pay any CGT on gains made from an ISA.

Whether you have a lump sum to invest or want to save regularly, we can help you identify your attitude to risk and determine which ISA solution is best for you. We offer a completely personal investment advisory service – for more information please contact us.

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Savings survey

Facing up to the reality of not having saved enough

Around 55* per cent of people said they were either currently not saving enough or they had to face up to the reality of not having saved enough into a pension in the past, according to insurer Friends Provident.

A further 15* per cent of those questioned admitted they had not given any thought to saving for retirement, while 31* per cent were relying on receiving an inheritance to fund them when they stopped working.

Nearly a third of people* who have yet to retire said they would carry on working until they had enough money to stop, while 23* per cent are planning to move to a smaller home or unlock equity from their property.

But 22* per cent of people are 'just hoping' they will have enough and 21* per cent have not made any plans about how they will support themselves if their pension is not big enough.

**Source: Friends Provident 02/09/09*

Our range of personal financial planning services is extensive, covering areas from pensions to wealth creation and tax-efficient investments. Contact us to discuss your current situation, and we'll provide you with a complete financial wealth check.

PROTECTING KEY PERSONNEL

Managing the risk that could ultimately threaten your company's profits

A vital part of any business is the people who work there. But what if something happened to one of the key personnel in your business, for example, if an important member of staff died unexpectedly or became unable to work due to a serious illness. This could have a considerable impact on the core operations, sales and profit of your business.

Key person insurance is cover that pays out for loss in the event of either death or disability of the important individuals within a business and is designed to protect or compensate the business.

IS YOUR BUSINESS AT RISK?

Small and medium-sized businesses could be particularly at risk. However, there is a solution – insurance that would replace the lost profits caused by the loss of a key person. Typically, the liability of any such insurance is the estimated cost of the loss, for example, in business or revenue lost, and/or the replacement of that individual.

KEY PERSONNEL TO CONSIDER

- The people who create the business and steer it in the right direction
- The people without whom your business would lose sales and profits
- Directors, partners and shareholders
- Integral managers, or key IT development specialists or development operators

TYPES OF COVER

There are various types of insurance policy that can be used for this purpose. There might be a short-term need for cover, for example,

during an important project. In this situation a term assurance policy may be the most appropriate solution. However, if the key person is likely to remain with the business for an indefinite period of time, whole-of-life assurance may be more appropriate.

“ Key person insurance is cover that pays out for loss in the event of either death or disability of the important individuals within a business and is designed to protect or compensate the business. ”

PARTNERSHIPS

Companies and sole traders can affect policies on employees. But partnerships in England and Wales are not a separate legal entity, so where the key person cover is for an individual partner, the policy can either be taken out jointly by all the partners, in which case it becomes a partnership asset or, alternatively, the key partner could take out a policy and place it in an appropriate trust for the other partners.

INSURING A KEY PERSON

The required level of insurance taken out has to be justifiable. Factors to be

taken into account when estimating the required level of cover will include the profits that will be lost if the services of the key individual are no longer available, the expected cost of recruiting and training a new person and the length of time before that replacement is likely to be fully established.

TAX IMPLICATIONS

The tax implications of this type of insurance vary. Often, the premiums for key person insurance will be allowed as a business expense for corporation tax purposes, but certain conditions will need to be met.

Where the policy proceeds are taxable, the tax payable will be linked to the type of underlying policy. Payments under a key person term assurance policy will be treated as a trading receipt and subject to corporation tax. Bearing in mind that the policy has been taken out to replace lost profits and those profits would have been liable to tax, this approach makes sense.

However, the payout from a whole-of-life policy is treated differently, as it is considered a capital item. As these policies are deemed 'non-qualifying' for life assurance purposes, they will be taxed as the company's income.

In the event that a loan may be called in on the death of the key person, the amount of the loan and the effect this would have on the profitability of the business will also need to be assessed.

To calculate the sum insured, it is generally acceptable to use the individual's earnings, including bonuses and company perks, multiplied by a factor of five to ten times earnings. Alternatively, a multiple of profits may be used, which would not typically exceed two years' gross profits or five times annual net profit, divided by the number of key people being insured.

If you would like to arrange a review of your current corporate requirements and discuss the options available to you, please contact us.

10 WAYS TO SAVE TAX

Act fast before the end of the tax year

In the run-up to the end of the 2009/10 tax year, now is the time to start making sure that your tax affairs are in the best of health. Follow our checklist to see what you should be considering.

1 UNUSED TAX ALLOWANCES

If your spouse has any unused tax allowances or pays tax at a lower rate, it makes sense to utilise this. If you are a higher rate taxpayer you must declare savings interest and dividend income to HMRC and extra tax is deducted. But if you give your savings to your spouse then they would pay less tax, boosting your income. Of course, you must trust your spouse. Don't hold the money in joint names because HMRC will assume you each earn half the interest.

2 INDIVIDUAL SAVINGS ACCOUNT (ISA) ALLOWANCE

During the 2009/10 tax year, make sure you fully use your £7,200 ISA allowance (or £10,200 for those over 50). Up to £3,600 (£5,100 for those over 50) of this can be invested in cash or, if you wish, the full amount can be invested into stocks and shares, the capital gains from which are tax-free. There is no capital gains tax payable when you sell shares or units held in an ISA.

3 AGE-RELATED ALLOWANCE

If you are a pensioner, once your income exceeds £22,900 (2009/10) you will lose some or all of your age-related allowance, as the allowance will be reduced by £1 for every £2 of income above the limit. If you are very close to being affected by a reduction in the age-related allowance you could consider using tax-free savings, such as a cash Individual Savings Account (ISA) and National Savings Certificates. Another option is certain insurance company bonds, which can delay tax payments. The key thing is not to allow tax concerns to dictate your whole investment strategy or you could actually end up with less income.

4 GIFT AID

If you are over 65, donations to charity through Gift Aid can reduce your taxable income to below the level at which you start to lose out on age-related allowances. If you are in a higher tax bracket, you can claim back the difference between the basic and higher rate of income tax on any Gift Aid donations.

5 PENSIONS

Make sure that you take advantage of your pension contributions. When you save in a pension you receive a minimum of 20 per cent relief, whether you pay tax or not, and up to 40 per cent relief (2009/10) if you are a higher rate taxpayer. There is no tax payable on the growth of capital within your pension fund. However, tax credits on UK dividends cannot be reclaimed. You also pay no tax if you die before drawing benefits and 25 per cent of your pension fund is available as a lump sum, free of tax, at retirement.

6 CAPITAL GAINS TAX (CGT) ALLOWANCE

Individuals, personal representatives and trustees for disabled people are permitted to make a £10,100 capital gain in the current 2009/10 tax year without paying tax, and you should fully utilise this facility if applicable to your particular situation. Other trustees are permitted to make a £5,050 gain in the current tax year without paying tax. You only pay tax on the excess over the tax-free limit if your gains (profit) exceed your allowance. For this tax year there is a single rate of CGT of 18 per cent irrespective of income for individuals, trustees and personal representatives on taxable gains. If you are a married couple or a registered civil partnership and own assets jointly, you can claim a double allowance of £20,200.

7 INHERITANCE TAX (IHT)

Gifts are not normally counted as part of your estate for IHT purposes if you live for a further seven years after making them. Known as potentially exempt transfers (PETs), they can reduce your residual estate significantly.

8 CHILD TRUST FUNDS

Use child trust funds (CTFs) or Children's Bonus Bonds to avoid being taxed on gifts you make to your own children.

9 ANNUAL INVESTMENT ALLOWANCE

If you are a landlord or run your own business, take advantage of the annual investment allowance (AIA) to claim for capital expenditure on items such as tools and computers. You can claim relief on up to £50,000 a year.

10 REDUCING CAPITAL GAINS TAX ON A RENTAL PROPERTY

Landlords are normally liable for CGT when they sell a rental property. If it has been your main home at some time in the past, you can claim tax relief for the last three years of ownership. The main residence relief applies to a dwelling house (including a flat, apartment or similar) that has been your only or main residence at some time during ownership. The basic rule is that the fraction of the gain that is exempt is the period of occupation as your main home divided by your total period of ownership. There is an extension of the relief because the period of occupation is 'inclusive of the last 36 months'. The amount of relief will depend upon which periods you occupied.

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Inheritance tax planning

Your questions answered

You don't have to be seriously wealthy for your estate to be subject to Inheritance Tax (IHT) after you die. Currently, IHT is levied on everything you leave over £325,000 (2009/10). Inheritance tax planning is a complex subject and it's important to obtain professional advice if you have any concerns about your particular requirements, as this could save you thousands of pounds of potential lost tax.

You might consider taking advice on IHT planning to:

- Keep your assets within your family
- Protect your Nil Rate Band if you were to die and your partner re-marry
- Protect assets passed to children or grandchildren from the risk of them becoming bankrupt or divorced
- Protect your assets from the need to fund long-term care in later life
- Reduce an IHT liability
- Avoid an IHT liability

These are some of the typical questions that we are asked most by our clients:

Q: Should I write a will?

A: The simple answer is 'yes'. It's easy to put off making a will. But if you die without one, your assets may be distributed according to the law rather than your wishes. This could mean that your spouse or partner receives less, or that the money goes to family members who may not need it.

These are some of the financial reasons for making a will:

- if you aren't married or in a civil partnership (whether or not it's a same sex relationship), your partner will not inherit automatically. With a will, you can make sure your partner is provided for
- if you're divorced or if your civil partnership has been dissolved, you can decide whether to leave anything to an ex-partner who's living with someone else
- you can make sure you don't pay more IHT than necessary

Q: How can I minimise the value of my estate for IHT purposes?

A: You cannot be taxed on money that was never yours. It is sensible to ensure that as much as possible is outside your estate. Check that all current or new life insurance plans are written under an appropriate trust. Your existing life policies could be transferred into such

a trust. If your employer pays a death benefit, complete a nomination form and make sure any money goes directly to the person you choose and not into your estate. It is also worth thinking about legacies you receive. Someone who benefits from a legacy could divert that gift to another person. You can apply for a 'deed of variation' within two years of the death of the giver.

Q: What are the effects of getting married?

A: Anything you pass on to a spouse (the same concession applies to same-sex couples who register under civil partnership laws) is free of IHT. However, legacies between unmarried couples are not tax-free. This may become a significant issue when a couple jointly own their home, which could lead to some people having to pay an IHT bill just to continue living in their home.

Q: Can I gift my home to my children?

A: For many families, their homes are their biggest asset. The government has clamped down on schemes to get around the 'gifts with reservation' rules. These allowed people to give away homes, but still live in them. Now, income tax can be charged for living rent-free in a home you once owned. But there are still ways to reduce IHT. Most couples who own a home together are joint tenants. This means that if one person dies, the other automatically becomes the outright owner of the property. The alternative is to register as 'tenants in common', each owning half the property absolutely. This means that on death, your share may be left to someone else to keep down the size of your estate.

Q: Are there any investments that will enable me to reduce an IHT liability?

A: Some investments are given favourable treatment for IHT purposes, including shares in unquoted businesses, woodlands, farms and farmland. Many shares on the

Alternative Investment Market (AIM) also qualify for relief. Investing in AIM shares is one way of reducing an IHT liability on an estate. Qualifying AIM shares offer more IHT relief than some other assets and qualify as 'business property investments'. If property is held as AIM shares in certain trading companies for a period of at least two years, it becomes eligible for Inheritance Tax Business Property Relief at 100 per cent and will fall out of the estate for IHT purposes. This relief is a relief by value, the shares being treated as having no value for IHT purposes. Not all AIM companies are eligible for Business Property Relief. Please note that AIM shares may be more volatile than shares listed on the main market, the London Stock Exchange. There may also be a more limited market for AIM shares, which are generally higher risk investments in smaller company shares.

Q: Should I consider trusts to minimise an IHT liability?

A: When writing a will, there are several kinds of trusts that can be used to help minimise an IHT liability. On 22 March 2006, the government changed some of the rules regarding trusts and introduced some transitional rules for trusts set up before this date. This is a very complex area of IHT planning and professional advice should always be obtained.

Q: Could I use a life insurance policy to pay for a future IHT bill?

A: A whole-of-life insurance written under an appropriate trust could be used to provide a lump sum on death that falls outside your estate. On death, the proceeds of the policy would be used to settle the IHT liability. The premiums are treated for tax purposes as a gift from regular income. The advantage is that you retain your wealth through your lifetime and so have the funds if, for example, you need to go into long-term care.

Q: In which other ways can I reduce the value of my estate?

A: Giving away money will reduce your estate, but will not cut the tax liability immediately. You have to survive for seven years for most gifts to escape the IHT net. However, within that last seven years, the HM Revenue & Customs (HMRC) allow gifts of up to £3,000 each tax year. Unlimited gifts up to £250 per person per tax year are exempt, as are payments of up to £5,000 for wedding gifts. The most powerful concession is that regular gifts made from normal income can be exempt from IHT. You must show you have been giving regularly and are not materially reducing your standard of living or running down savings. This concession allows parents or grandparents to help children without fear of IHT tax problems in the future.

Timely decisions on how jointly owned assets are held, the mitigation of IHT tax, the preparation of a will and the creation of trusts can all help ensure your dependents are left financially secure. If you would like to discuss your particular situation, please contact us. Don't leave it until it's too late.

IHT planning is a complex area of financial planning and you should seek professional advice prior to taking any course of action. The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

Are you an income-seeking saver?

Making the right informed decisions is the key

We provide solutions for the diverse needs not just of our wealthy clients but also of those who aspire to become wealthy, enabling each individual to structure their finances as efficiently as possible.

If you are an income-seeking saver in search of good returns from your savings in this low interest rate environment, we can provide you with the professional advice you need to enable you to consider all the options available. In addition, we can help you determine what levels of income you may need and work with you as your requirements change. A major consideration is your attitude towards risk for return and availability. This will determine which asset class you are comfortable investing in.

Cash, especially in the current recessionary climate, is an important element for any income investor. One option you may wish to discuss with us is cash funds, dubbed 'money market' portfolios. These use the pooled savings of many investors to benefit from higher rates not available to individuals. They can invest in the most liquid, high-quality cash deposits and 'near-cash' instruments such as bonds. But unlike a normal deposit account, the value of a cash fund can fall as well as rise, although in theory, at least, it should not experience volatile swings.

Bonds are a form of debt, an 'IOU' issued by either governments or firms looking to raise capital. As an investor, when you purchase a bond you are essentially lending the money to the government or company for a set period of time, which varies according to the issuer. In return you will receive interest, typically paid twice a year, and when the bond reaches maturity you usually get back your initial investment. But you don't have to keep a bond until maturity. You can, if you wish, sell it on.

Much of the government's debt, including the additional money being used to aid the economy and refinance the banks, is in the form of bonds it issues. Gilts are bonds issued by the British government. The advantage of gilts is that the government is unlikely to fail to pay interest or repay its debt, so they are generally the safest investments. To date, the UK government has never failed to pay back money owed to investors. Government bonds pay a known and regular income (called the coupon) and a lump sum at maturity (called the par). They typically perform well as the economy slows and inflation falls.

Government bonds tend to move in the opposite direction to shares and historically are good diversifiers. But on the flipside, the government is likely to issue more gilts and this large supply may lead to falls in gilt prices. As government bonds pay a fixed income stream, the real value of these payments erodes if inflation rises. Similarly, the value of bonds typically falls when interest rates rise.

Corporate bonds operate under the same principle as gilts, in other words companies issue debt (bonds) to fund their activities. High-quality, well-established companies that generate lots of cash are the safest corporate bond issuers and their bonds are known as 'investment grade'.

High-yield bonds are issued by companies that are judged more likely to default. To attract investors, higher interest is offered. These are known as 'sub-investment grade' bonds.

The risks related to investing in bonds can be reduced if you

invest through a bond fund. The fund manager selects a range of bonds, so you are less reliant on the performance of one company or government. The 'distribution yield' gives a simple indication of what returns are likely to be over the next 12 months. The 'underlying yield' gives an indication of returns after expenses if all bonds in the fund are held to maturity.

An alternative route to generating income is by investing in stocks that pay a dividend. If a firm is making good profits it can decide to share this with investors rather than reinvest it in the business, so essentially dividends are the investors' share of company profits. Share prices of companies that regularly pay dividends tend to be less volatile than other companies, but remember that company shares can fall in value. In addition, dividends can

be cut if a company finds itself in need of extra cash.

Another way to invest in equities for the purpose of obtaining a better income is via an equity income fund. The fund manager running the portfolio selects a wide range of equities, so you are less reliant on the performance of any one particular company, and will try to select companies that pay regular dividends.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.



Pension rules post A-Day

How the landscape for retirement planning has changed

The government introduced new pension rules, known as 'pension simplification', that became effective from 6 April 2006 (A-Day). This completely changed the pension landscape by creating a single universal regime that replaced the previous eight tax regimes. Savers in occupational and personal pension schemes and employers have all been affected. The new tax rules also changed when and how people could retire, how they could contribute and what their funds could invest in.

Pension simplification introduced two new controls – the pension lifetime allowance and the pension annual allowance. The other main changes allowed all schemes to offer a tax-free cash sum of up to 25 per cent and to allow employees the opportunity to continue working for their employer while taking benefits from their occupational pension scheme. This also included the protected rights portion of a pension, AVC, FSAVC and transfers received from occupational pension schemes.

The value of your investment can go down as well as up and you may not get back the full amount invested.

DID YOU KNOW?

Lifetime allowance

The Lifetime Allowance is the maximum amount of pension savings that can benefit from tax relief and is currently set at £1.75m (2009/10). If you are a member of a registered pension scheme, you will be subject to a lifetime allowance on the total cumulative value of the pension benefits you draw from the scheme, whether you receive them in the form of a lump sum

or a pension. The value of the benefits is measured at the time they commence. If you exceed this limit you are subject to a lifetime allowance charge. The rate of charge is 25 per cent if the excess benefits are taken as pension income and 55 per cent if taken as a lump sum.

Annual allowance

The annual allowance provides a cap on the total annual amount of tax-relieved contributions, or benefit accrual, that you may contribute into one or more registered pension schemes either for yourself or on behalf of an individual. Savings above this

amount are usually subject to an annual allowance charge of 40 per cent, payable by the individual. The current annual allowance is £245,000 (2009/10); however, this is being frozen for the tax years 2011/12 to 2015/16 inclusive, at £255,000.

Retirement age increase

The minimum pension age is currently 50 years. However, this will increase to 55 from 6 April 2010. From this date, it will not be possible for individuals under the age of 55 to take pension benefits. This will also apply to taking a tax-free lump sum, purchasing an annuity and effecting income drawdown.

If you turn 50 by 5 April 2010, you could take a tax-free lump sum from your personal pension (known as a 'pension commencement lump sum' or PCLS) of up to 25 per cent of your fund. After this date, the latest rule change means you'll have to wait until you're at least 55.

We understand that life is a process of constant change. That's why the most important element of any retirement planning strategy should be to protect and enhance your future wealth. Our objectives are simple – to increase the asset value and minimise the tax liabilities of our clients. If you would like to discuss your particular requirements, please contact us.